

Federal Budget Estimates, Fiscal Year 1998

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THE FEDERAL budget for fiscal year 1998 transmitted by the President to Congress on February 6, 1997, shows a \$5.0 billion decrease in the budget deficit—from \$125.6 billion in fiscal year 1997 to \$120.6 billion in fiscal year 1998.¹

1. Estimates are shown on a fiscal year basis.

Table 1.—Relation of Current-Services Estimates to the Budget
(Billions of dollars)

	Fiscal year	
	1997	1998
Receipts		
Current-services estimates	1,503.8	1,573.8
<i>Plus:</i> Proposed legislation	1.6	-7.0
Middle class tax cut	-8	-15.4
Provide tax credit for dependent children	-7	-9.9
Provide tax incentive for education and training	-1	-4.0
Expand individual retirement accounts	0	-1.5
Extend Research and Experimentation tax credit	-4	-8
Other .....	.2	-1.7
Subtotal: Provide tax relief	-1.4	-17.9
Extend aviation excise taxes and assess new user fees	2.3	5.0
Extend corporate environmental tax	0	1.1
Replace sales source rules with activity-based rules	0	.9
Extend Superfund excise taxes .....	.1	.7
Require gain recognition for certain extraordinary dividends .....	.4	.6
Require average-cost basis for stocks, securities, etc.	0	.6
Extend Generalized System of Preferences and modify other trade provisions	0	-.7
Other .....	.2	2.7
Subtotal: Other provisions that affect receipts	3.0	10.9
<i>Equals:</i> The budget	1,505.4	1,566.8
Outlays		
Current-services estimates	1,631.5	1,693.4
<i>Plus:</i> Program changes	-5	-5.9
National defense	-7	-5.3
Medicare	0	-4.3
Undistributed offsetting receipts and allowances	0	-2.3
Veterans benefits and services	0	-.6
Commerce and housing credit	0	-.4
Social security	0	-.3
General government	0	-.2
Net interest	-2	0
Natural resources and environment	0	.1
International affairs	0	.1
Community and regional development	-.2	.3
Administration of justice	0	.6
Education, training, employment, and social services	-.4	1.3
Income security .....	.7	2.3
Health	0	3.4
Other	-.1	-.6
<i>Equals:</i> The budget	1,631.0	1,687.5
Current-services surplus or deficit (-)	-127.7	-119.6
Proposed changes, receipts less outlays	2.1	-1.1
Administration budget surplus or deficit (-)	-125.6	-120.6

Source: *The Budget of the United States Government, Fiscal Year 1998.*

The fiscal year 1998 deficit reflects the administration's proposed legislation and program changes, the economic assumptions used in making the budget projections, and the currently enacted laws.²

This article summarizes the proposed legislation and program changes in the administration's budget and the budget estimates. It then presents the budget receipts and outlays in the framework of the national income and product accounts, which are designed to display the value and composition of national output and the distribution of incomes generated in its production. This framework, which differs in concept and timing from the budget, provides analysts a means of gauging the effects of government fiscal policies on aggregate measures of U.S. economic activity.

Proposed changes

The fiscal year 1998 budget presents proposed legislation and program changes that lower the deficit while shifting sources of receipts and while changing spending priorities. Total receipts are decreased \$7.0 billion through proposed legislation, which includes \$15.4 billion in tax cuts for middle-income taxpayers. Total outlays are reduced \$5.9 billion through program changes (table 1).

The budget proposes a three-part tax cut for middle-income taxpayers:

- A \$300 tax credit for each dependent child, which would reduce receipts by \$9.9 billion in 1998.
- A tax deduction of up to \$5,000 per taxpayer for post-secondary education and job training, which would reduce receipts by \$4.0 billion in 1998.
- An expansion of tax-deductible individual retirement accounts, which would reduce receipts by \$1.5 billion in 1998.

2. Estimates of the administration's proposed legislation and program changes are derived as the difference between the "current-services" estimates included in the budget and the total budget. Current-services estimates, which are based on the same economic assumptions as those underlying the budget, are designed to show what Federal receipts and outlays would be if no changes are made to the laws already enacted. In concept, these estimates are neither recommended amounts nor forecasts; they form a base with which administration or congressional proposals can be compared.

The effects of these tax cuts would be partly offset by the extension of various excise taxes and other tax changes that together would raise receipts \$10.9 billion in 1998. A proposal to extend airport and airway excise taxes and to assess user fees for Federal Aviation Administration services would add \$5.0 billion to receipts. The extension of the following excise and corporate environmental taxes that were allowed to expire at the end of 1995 would add \$1.9 billion: The Hazardous Substance Superfund Trust Fund excise tax; the Leaking Underground Storage Trust Fund excise tax; and the Hazardous Substance Superfund Trust Fund corporate environmental tax. The remainder of the increase in receipts is accounted for by other proposals, none of which amount to more than \$0.4 billion.

The budget proposes program changes that reduce total outlays by a net \$5.9 billion in 1998. The proposed cuts would reduce outlays for national defense by \$5.3 billion and outlays for medicare by \$4.3 billion. Outlays would also be reduced \$2.3 billion by increasing the receipts from the sale of assets, including the auction of additional parts of the radio spectrum (\$2.1 billion); such sales are treated as an offset to outlays in the budget and are included in "undistributed offsetting receipts and allowances."

The largest proposed increases in outlays are \$3.4 billion for health; \$2.3 billion for income security, including the Temporary Assistance for Needy Families program and other programs affected by the Personal Responsibility and Work Opportunity Reconciliation Act (welfare reform); and \$1.3 billion for education, training, employment, and social services.

The budget estimates

In the budget, receipts in fiscal year 1998 are projected to increase \$61.4 billion, or 4.1 percent, to \$1,566.8 billion (table 2). Receipts in 1997 are projected to be \$1,505.4 billion, up 3.6 percent from 1996. The projected increase in receipts for 1998 is mostly accounted for by increases in social insurance taxes and contributions, individual income taxes, and corporation income taxes; these increases primarily reflect the assumption that incomes will increase because of both real economic growth and inflation. These increases will be partly offset by the administration's proposals to cut taxes for middle-income taxpayers (\$15.4 billion) and to extend the tax credit for certain research and experimentation expenditures through May 31, 1998 (\$0.8 billion).

Total budget outlays in fiscal year 1998 are projected to increase \$56.5 billion, or 3.5 percent, to

\$1,687.5 billion (table 3). Outlays in 1997 are projected to be \$1,631.0 billion, up 4.5 percent from 1996. The projected increase in 1998 is mostly accounted for by four functions:

- **Social security**—An increase of \$16.6 billion is more than accounted for by a \$16.9 billion increase from current-services outlays that mainly reflects the cost-of-living adjustments, the assumptions about inflation and the number of beneficiaries in these programs. Most of the increase in social security is accounted for by old-age and survivors insurance benefits (\$13.1 billion).
- **Medicare**—An increase of \$12.8 billion is more than accounted for by a \$17.1 billion increase from current-services outlays. The increase in current-services outlays is partly offset by a

Table 2.—Budget Receipts by Source

[Billions of dollars]

	Fiscal year						
	1995	1996	1997	1998	Change from preceding year		
					1996	1997	1998
Budget receipts	1,351.8	1,453.1	1,505.4	1,566.8	101.3	52.3	61.4
Individual income taxes	590.2	656.4	672.7	691.2	66.2	16.3	18.5
Corporation income taxes	157.0	171.8	176.2	189.7	14.8	4.4	13.5
Social insurance taxes and contributions	484.5	509.4	535.8	557.8	24.9	26.4	22.0
Excise taxes	57.5	54.0	57.2	61.2	-3.5	3.2	4.0
Estate and gift taxes	14.8	17.2	17.6	18.8	2.4	.4	1.2
Customs duties	19.3	18.7	17.3	18.3	-.6	-1.4	1.0
Miscellaneous receipts	28.6	25.5	28.6	29.8	-3.1	3.1	1.2

Source: The Budget of the United States Government, Fiscal Year 1998.

Table 3.—Budget Outlays by Function

[Billions of dollars]

	Fiscal year						
	1995	1996	1997	1998	Change from preceding year		
					1996	1997	1998
Budget outlays	1,515.7	1,560.3	1,631.0	1,687.5	44.6	70.7	56.5
National defense	272.1	265.7	267.2	259.4	-6.3	1.4	-7.8
Social security	335.8	349.7	367.7	384.3	13.8	18.0	16.6
Net interest	232.2	241.1	247.4	249.9	8.9	6.3	2.5
Income security	220.5	226.0	238.9	247.5	5.5	12.9	8.6
Medicare	159.9	174.2	194.3	207.1	14.4	20.0	12.8
Health	115.4	119.4	127.6	138.2	4.0	8.3	10.6
Education, training, employment, and social services	54.3	52.0	51.3	56.2	-2.3	-7.7	4.9
Veterans benefits and services	37.9	37.0	39.6	41.0	-.9	2.7	1.3
Commerce and housing credit	-17.8	-10.6	-8.8	3.4	7.2	1.8	12.2
Natural resources and environment	22.1	21.6	22.8	22.3	-.5	1.2	-.5
Agriculture	9.8	9.2	10.3	12.3	-.6	1.1	2.1
General science, space, and technology	16.7	16.7	16.6	16.5	0	-.2	-.1
International affairs	16.4	13.5	14.8	14.9	-2.9	1.3	.1
Energy	4.9	2.8	2.1	2.3	-2.1	-.8	.2
Transportation	39.4	39.6	39.3	39.3	.2	-.3	0
Administration of justice	16.2	17.5	20.8	24.2	1.3	3.2	3.4
General government	13.8	11.9	13.1	12.9	-1.9	1.2	-.2
Community and regional development	10.6	10.7	12.8	11.4	0	2.1	-1.3
Undistributed offsetting receipts and allowances	-44.5	-37.6	-46.5	-55.6	6.8	-8.9	-9.1
Addenda:							
Social security, medicare, health and commerce, and housing credit	593.3	632.6	680.8	733.0	39.3	48.2	52.2
All other functions	922.4	927.7	950.2	954.5	5.3	22.5	4.2

Source: The Budget of the United States Government, Fiscal Year 1998.

number of proposed payment reforms, beneficiary improvements, and other initiatives that would result in savings of \$4.3 billion.

- **Commerce and housing credit**—An increase of \$12.2 billion is more than accounted for by a \$12.6 billion increase from current-services outlays.
- **Health**—An increase of \$10.6 billion is accounted for by \$7.2 billion in current-services outlays and by \$3.4 billion in program changes. Most of the increase in current-services outlays is in medicaid: States are to receive increased funding that will allow them more flexibility to manage and design their own medicaid programs by providing services previously requiring Federal waivers and by expanding coverage (within a new per capita cap) for working families and children. Program changes for “health initiatives” would increase outlays \$2.5 billion. These increases would be partly offset by program savings that would result from imposing a per capita limit on medicaid spending and from reducing and retargeting payments to hospitals that serve a disproportionate number of low-income and medicaid beneficiaries.

The largest projected decreases in budget outlays in 1998 are in national defense and in “undistributed offsetting receipts and allowances.” Outlays for national defense are projected to decrease \$7.8 billion. The administration’s budget supports the following ongoing programs for cutting outlays: Reducing the number of civilian defense employees (25 percent from 1993 to 1999); implementing the Information Technology Management Reform Act and the Government Performance and Results Act to improve decision-making in weapons purchases, transportation methods, and inventory control; improving financial management and systems to reduce contractor overpayments and to tighten fraud detection and controls; and increasing the use of the private sector for support functions.

“Offsetting receipts” includes the Government’s receipts from performing business-like activities—such as the sales of Federal assets—and are netted against outlays in the budget. In 1998, these receipts will include those from the scheduled sale of assets, including the U.S. Enrichment Corporation (\$1.8 billion) and the Elk Hills naval petroleum reserve (\$2.4 billion).

Relation between budget and NIPA estimates

The Bureau of Economic Analysis prepares estimates of the Federal sector in the framework of the national income and product accounts (NIPA’s), an integrated set of measures of aggregate U.S. economic activity. The NIPA estimates differ from the budget estimates in several respects.³ For example, NIPA transactions for each sector are recorded on a timing basis that is most appropriate for that sector, so transactions with the household sector are recorded on a cash basis, whereas transactions with the business sector are recorded on an accrual basis. In addition, the NIPA treatment of government investment in fixed assets and the cost of using these assets is symmetrical with the treatment of fixed investment in the private sector. Finally, transfers of nonproduced assets, such as the sale of land, are excluded from the NIPA’s because they do not affect current production.

3. For a detailed discussion of the reconciliation, see *Government Transactions, NIPA Methodology Paper Series MP-5* (Washington, DC: U.S. Government Printing Office, November 1988). (MP-5 is available from the National Technical Information Service, Accession No. PB 90-118480.)

In addition, as part of the comprehensive NIPA revision released in January 1996, several changes were made to the definitions and classifications used to measure the Federal sector. For a discussion of these changes, see “Preview of the Comprehensive Revision of the National Income and Product Accounts: Recognition of Government Investment and Incorporation of a New Methodology For Calculating Depreciation,” *SURVEY OF CURRENT BUSINESS* 75 (September 1995): 33-41; and “Improved Estimates of the National Income and Product Accounts for 1959-95: Results of the Comprehensive Revision,” *SURVEY* 76 (January/February 1996):1-31.

Table 4.—Relation of Federal Government Receipts in the National Income and Product Accounts to Receipts in the Budget

[Billions of dollars]

	Fiscal year		
	1996	1997	1998
Budget receipts	1,453.1	1,505.4	1,566.8
Less: Coverage differences ¹	3.2	3.8	4.7
Plus: Netting and grossing differences:			
Contributions to government employee retirement funds	64.9	71.1	73.3
Taxes received from the rest of the world ²	-2.3	-2.3	-2.3
Other ³	29.4	33.1	30.7
Timing differences:			
Corporate income tax	8.1	9.5	8.0
Federal and State unemployment insurance taxes	-7	-1	.3
Withheld personal income tax and social security contributions	9.9	3.7	2.0
Excise taxes	-1.6	-5	-8
Other	-1.5	-1.0	-1.0
Equals: Federal Government receipts, NIPA’s	1,556.0	1,615.1	1,672.3

1. Consists largely of receipts from the Federal Communication Commission Universal Service Fund and of contributions for social insurance by residents of U.S. territories and Puerto Rico.

2. Taxes received from the rest of the world are included in the budget as receipts and netted against expenditures (transfer payments) in the NIPA’s.

3. Consists largely of proprietary receipts that are netted against outlays in the budget and classified as receipts in the NIPA’s.

Sources: *The Budget of the United States Government, Fiscal Year 1998* and the Bureau of Economic Analysis.

NIPA National income and product accounts

NIPA receipts differ from budget receipts because of coverage differences, netting and grossing differences—which provide additional information on items that are recorded on a net basis in the budget—and timing differences (table 4). For most years, the difference primarily reflects contributions to government employee retirement funds and proprietary receipts. The contributions are included in NIPA receipts to provide separate detail on government retirement funds, but in the budget, they are recorded in outlays both as an expenditure and as an offsetting receipt. In addition, some proprietary receipts are treated as NIPA receipts, but they are netted against outlays in the budget. For 1998, NIPA receipts exceeded budget receipts by \$105.5 billion; contributions to government employee retirement funds are \$73.3 billion, and proprietary receipts are \$30.7 billion.

NIPA current expenditures differ from budget outlays because of coverage, netting and grossing, and timing differences. They also differ because of

Table 5.—Relation of Federal Government Current Expenditures in the NIPA's to Outlays in the Budget

[Billions of dollars]

	Fiscal year		
	1996	1997	1998
Budget outlays	1,560.3	1,631.0	1,687.5
Less: Coverage differences:			
Geographic ¹	9.1	9.5	10.0
Other ² .....	.2	0	.8
Financial transactions:			
Net lending	1.3	6.0	7.8
Deposit insurance	-14.6	-13.4	-5.7
Other	7.5	-5.4	-5.5
Net purchases of nonproduced assets:			
Outer continental shelf	-2	-2	-2
Other	-1	-7.8	-11.2
Plus: Netting and grossing differences:			
Contributions to government employee retirement funds	64.9	71.1	73.3
Taxes received from the rest of the world ³	-2.3	-2.3	-2.3
Other ⁴	29.4	33.1	30.7
Consumption of fixed capital	73.0	71.7	71.1
Timing differences:			
National defense consumption expenditures	7.6	.6	1.5
Other	4.1	-2	1.2
Equals: Federal Government current expenditures and gross investment, NIPA's	1,748.8	1,816.1	1,866.9
Less: Gross investment ⁵	62.9	59.0	58.0
Equals: Federal Government current expenditures, NIPA	1,685.9	1,757.1	1,808.9

the NIPA treatment of government investment in fixed assets and because of the removal of financial transactions, such as loans, and of sales of nonproduced assets, such as the radio spectrum (table 5). For most years, the difference primarily reflects the netting and grossing differences and the treatment of government investment: Consumption of fixed capital, which is not recognized in the budget, is included in NIPA current expenditures; government investment in fixed assets, which is included in budget outlays, is excluded from NIPA current expenditures. For 1998, NIPA current expenditures exceed budget outlays by \$121.4 billion; contributions to government employee retirement funds are \$73.3 billion, proprietary receipts are \$30.7 billion, and the consumption of fixed capital exceeds investment by \$13.1 billion.

In the NIPA framework, national defense outlays in the budget are included in both consumption expenditures and gross investment. These outlays differ from the NIPA's for four principal reasons (table 6). First, some defense outlays, primarily disbursements for foreign military sales, are treated as exports in the NIPA's. Second, NIPA expenditures are recorded on a delivery basis, and budget outlays are recorded on a cash basis; thus in the

Table 6.—Relation of National Defense Consumption Expenditures and Gross Investment in the NIPA's to National Defense Outlays in the Budget

[Billions of dollars]

	Fiscal year		
	1996	1997	1998
National defense outlays in the budget	266.5	264.2	254.7
Department of Defense, military	254.4	251.3	242.8
Military personnel	66.7	70.1	69.3
Operation and maintenance	88.8	88.7	86.2
Procurement	48.9	45.6	43.1
Aircraft	14.3	13.3	13.2
Missiles	4.2	4.2	3.6
Ships	7.3	7.0	6.7
Weapons	3.8	3.4	2.9
Ammunition .....	.9	1.2	1.0
Other	18.4	16.4	15.7
Research, development, test and evaluation	36.6	36.0	34.6
Other	13.4	10.9	9.5
Atomic energy and other defense-related activities	12.1	12.9	11.9
Plus: Military assistance purchases .....	.2	.2	.2
Additional payments to military and civilian retirement funds	17.2	21.8	22.6
Consumption of general government fixed capital	59.4	57.9	56.9
Less: Grants-in-aid to State and local governments and net interest paid	3.0	2.6	2.4
Timing difference	-8.2	-2	-1.5
Other differences	0	-1.4	-1.8
Equals: National defense consumption expenditures and gross investment, NIPA's	348.5	343.1	335.3
Less: National defense gross investment ¹	43.2	38.5	37.4
Equals: National defense consumption expenditures, NIPA's	305.3	304.6	297.9

1. Gross investment consists of expenditures for fixed assets; inventory investment is included in Federal Government consumption expenditures.

Sources: *The Budget of the United States Government, Fiscal Year 1998* and the Bureau of Economic Analysis.

1. Consists largely of transfer payments, subsidies, and grants-in-aid to residents of U.S. territories and Puerto Rico.

2. Consists of agencies not in the budget and of payments to the Federal Communication Commission Universal Service Fund. Also includes net purchases of silver and minor coin metal.

3. Taxes received from the rest of the world are included in the budget as receipts and netted against expenditures (transfer payments) in the NIPA's.

4. Consists largely of proprietary receipts that are netted against outlays in the budget and classified as receipts in the NIPA's.

5. Gross investment consists of expenditures for fixed assets; inventory investment is included in Federal Government consumption expenditures.

Sources: *The Budget of the United States Government, Fiscal Year 1998* and the Bureau of Economic Analysis.

NIPA National income and product accounts

NIPA's, all work-in-progress except shipbuilding is included in the change in business inventories component of gross domestic product. Third, in defense outlays, the cost of the military retirement program is measured as the cash payment from the military personnel appropriation account to the military retirement trust fund. In the NIPA's, a payment is added to amortize the unfunded liability for military retirement benefits earned by military personnel for service before 1985, and a payment is also added to amortize the unfunded liability for civilian retirement benefits; these payments are recorded in the budget as intergovernmental transactions. Fourth, the NIPA measure includes general government consumption of fixed capital.

The differences between the budget and NIPA estimates of receipts, outlays, and the surplus or deficit are summarized in [table 7](#). For 1998, the NIPA deficit is larger by \$15.9 billion primarily because of the difference in the treatment of government investment in fixed assets.

Fiscal year 1998 NIPA estimates

Federal receipts in the NIPA framework would increase \$57.2 billion in fiscal year 1998 to \$1,672.3 billion ([chart 1](#)): An increase of \$65.7 billion due to a higher tax base would be partly offset by a decrease of \$8.5 billion due to proposed legislation. The 1998 increase in total receipts reflects increases in contributions for social insurance (\$23.1 billion), personal taxes (\$21.2 billion), and corporate profits taxes (\$12.1 billion). The increase in contributions

for social insurance reflects higher contributions for the old-age, survivors, disability, and hospital insurance programs. The increase in personal taxes reflects higher withheld income taxes. The increase in total receipts would decelerate slightly in 1998, reflecting slowdowns in contributions for social insurance and in indirect business tax and nontax accruals ([table 8](#)).

Federal current expenditures in the NIPA framework would increase \$51.8 billion in fiscal year 1998 to \$1,808.9 billion ([chart 2](#)). Transfer payments would increase \$41.0 billion—\$16.4 billion for social security (of which \$10.0 billion is cost-of-living adjustments) and \$14.1 billion for medicare

CHART 1

Federal Government Receipts, NIPA Framework

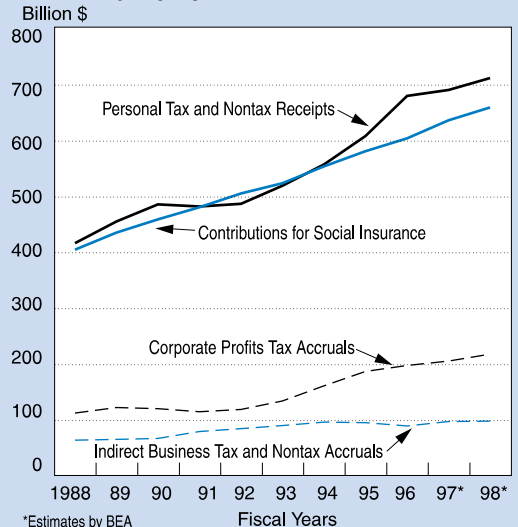


Table 7.—Relation of Federal Government Receipts and Current Expenditures in the NIPA's to the Receipts and Outlays in the Budget

[Billions of dollars]

	Fiscal year				
	1996	1997	1998	Change	
				1997	1998
Budget:					
Receipts	1,453.1	1,505.4	1,566.8	52.3	61.4
Outlays	1,560.3	1,631.0	1,687.5	70.7	56.5
Surplus or deficit (-)	-107.3	-125.6	-120.6	-18.3	5.0
NIPA's:					
Receipts	1,556.0	1,615.1	1,672.3	59.1	57.2
Current expenditures	1,685.9	1,757.1	1,808.9	71.2	51.8
Current surplus or deficit (-) ¹	-129.9	-142.0	-136.6	-12.1	5.4
Differences					
Budget less NIPA's:					
Receipts	-102.9	-109.7	-105.5	-6.8	4.2
Outlays	-125.6	-126.1	-121.4	-5	4.7
Surplus or deficit (-)	22.6	16.4	16.0	-6.2	-4

1. The NIPA current surplus or deficit reflects the treatment of government investment that was introduced in January 1996. Current expenditures now include (1) consumption of fixed capital for general government in consumption expenditures and (2) consumption of fixed capital for government enterprises as an expense in the calculation of the current surplus of government enterprises.

Sources: *The Budget of the United States Government, Fiscal Year 1998* and the Bureau of Economic Analysis.

NIPA National income and product accounts

Table 8.—Sources of Change in Federal Government Receipts, NIPA Framework

[Billions of dollars]

	Change from preceding fiscal year		
	1996	1997	1998
Total receipts	99.5	59.1	57.2
Due to change in tax bases	99.5	55.7	65.7
Due to proposed legislation	0	3.4	-8.5
Personal tax and nontax receipts	71.6	10.8	21.2
Due to change in tax bases	71.6	11.7	35.4
Due to proposed legislation	0	-9	-14.2
Corporate profits tax accruals	10.9	7.9	12.4
Due to change in tax bases	10.9	6.9	10.8
Due to proposed legislation	0	1.0	1.6
Indirect business tax and nontax accruals	-5.9	8.0	.5
Due to change in tax bases	-5.9	4.7	-3.6
Due to proposed legislation	0	3.3	4.1
Contributions for social insurance	22.9	32.4	23.1
Due to change in tax bases	22.9	32.4	23.1
Due to proposed legislation	0	0	0

Sources: *The Budget of the United States Government, Fiscal Year 1998*, and the Bureau of Economic Analysis.

(table 9). Other increases include grants-in-aid to State and local governments for medicaid (\$7.3 billion) and net interest (\$4.0 billion). National defense consumption expenditures would decrease \$6.7 billion, and subsidies less current surplus of government enterprises would decrease \$2.6 billion. The increase in Federal current expenditures would decelerate in 1998 because of a larger decrease in national defense consumption expenditures, a slowdown in nondefense consumption expenditures, and a downturn in subsidies less current surplus of government enterprises. **Chart 3** shows the components of Federal Government current expenditures in the NIPA framework for 1988–98.

In the NIPA framework, the current deficit for fiscal year 1998 would decrease \$5.4 billion after increasing \$12.1 billion in 1997. This decrease primarily reflects the decreases in national defense consumption expenditures and in subsidies less current surplus of government enterprises, but it also reflects the increases in personal taxes and corporate profits taxes. The NIPA current deficit exceeds the budget deficit primarily because of lending transactions and because the consumption of fixed capital that is added in the NIPA framework more than offsets the investment that is removed from the NIPA framework (chart 4).⁴

4. General government consumption of fixed capital has been larger than investment because investment, particularly in national defense, has been declining in recent years.

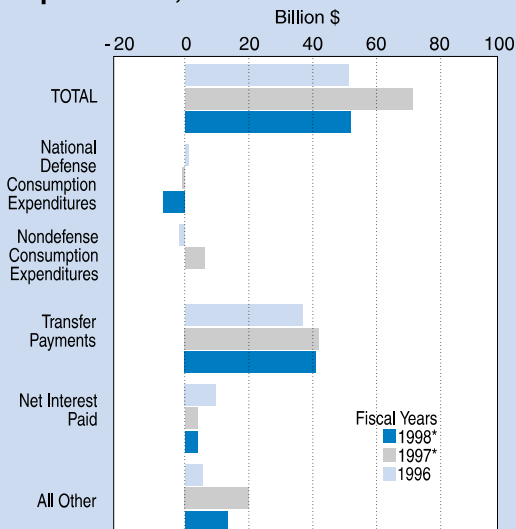
Table 9.—Sources of Change in Federal Government Current Expenditures, NIPA Framework
[Billions of dollars]

	Change from preceding fiscal year		
	1996	1997	1998
Total current expenditures	51.2	71.2	51.8
Consumption expenditures	-6	5.3	-6.5
National defense	1.1	-7	-6.7
Pay raise and locality pay ¹		2.4	2.9
Other	1.1	-3.1	-9.6
Nondefense	-1.8	6.0	.2
Pay raise and locality pay ¹		1.4	1.8
Other	-1.8	4.6	-1.6
Transfer payments	36.7	42.0	41.0
Social security	14.2	16.6	16.4
Medicare	14.1	19.8	14.1
Supplemental security income	2.4	-2	.5
Federal employee retirement	2.9	3.1	3.3
Earned income and child care credits	3.9	2.1	.8
Veterans benefits .....	.2	.6	1.2
Unemployment benefits .....	.8	.4	1.7
Other	-1.8	-4	3.0
Grants-in-aid to State and local governments	4.9	16.1	15.8
Medicaid	3.0	6.5	7.3
Education .....	.4	1.5	1.6
Highways .....	.4	.1	0
Health care .....	.7	0	2.9
Food and nutrition .....	.9	.7	1.4
Other	-5	7.3	2.6
Net interest paid	9.7	3.8	4.0
Subsidies less current surplus of government enterprises	3.1	1.6	-2.6
Agriculture subsidies	1.7	.3	-.3
Housing subsidies	-1.8	1.6	.1
Other subsidies	-6	-1	-.7
Less: Current surplus of government enterprises:			
Postal Service	0	1.0	1.3
Other government enterprises	-3.8	-8	.4

1. Consists of pay raises and locality pay beginning in January 1997.

CHART 2

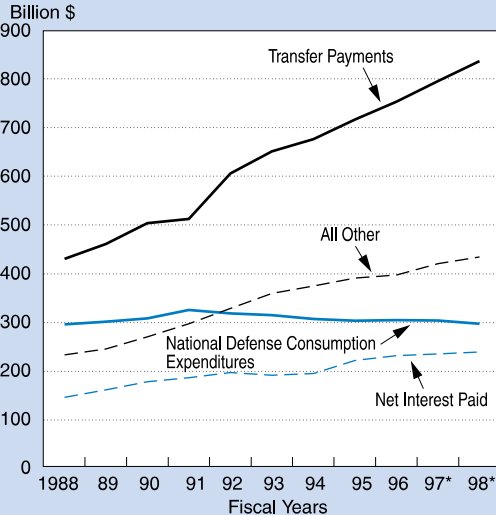
Changes in Federal Government Current Expenditures, NIPA Framework



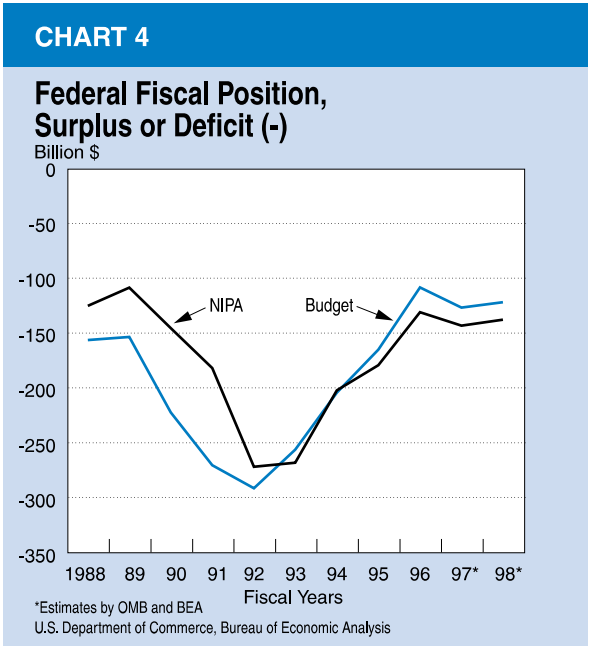
U.S. Department of Commerce, Bureau of Economic Analysis

CHART 3

Federal Government Current Expenditures, NIPA Framework



U.S. Department of Commerce, Bureau of Economic Analysis



Quarterly pattern.—Seasonally adjusted quarterly estimates of NIPA receipts and current expenditures that are consistent with the fiscal year receipts and outlays in the budget are shown in [table 10](#). Receipts reflect the quarterly pattern resulting from enacted and proposed legislation and from the administration's projected quarterly pattern of wages and profits. Current expenditures reflect the quarterly pattern resulting from enacted and proposed legislation that would reduce de-

fense consumption expenditures, adjust pay for Federal Government employees, and provide cost-of-living increases in social security and in Federal Government employee retirement benefits.

In the NIPA framework, the current deficit trends downward from the first quarter of 1996 through the fourth quarter of 1996 but then increases in the first quarter of 1997. The first-quarter 1997 increase reflects (1) decreases in personal taxes and indirect business taxes and (2) cost-of-living adjustments that increase social security (2.7 percent) and Federal employee retirement benefits (1.2 percent). The increase in the deficit is also attributable to an increase in grants-in-aid to State and local governments that primarily reflects a step-up in grants for the Temporary Assistance for Needy Families program that will replace the Aid to Families With Dependent Children program.

The deficit decreases slightly in the second quarter of 1997 and then increases in the third and fourth quarters. The third-quarter increase reflects higher transfer payments to persons, grants-in-aid to State and local governments, and net interest paid. The fourth-quarter increase reflects an \$11.2 billion spike in transfer payments to the rest of the world, primarily reflecting economic and other support payments to Israel, and an increase in net interest paid. The deficit turns down in the first quarter of 1998.

Table 10 follows. 

Table 10.—Federal Government Receipts and Current Expenditures, NIPA Framework

[Billions of dollars; calendar year and quarters at seasonally adjusted annual rates]

	Fiscal year estimates ¹			Calendar year		Published ²				Estimates								
	1996	1997	1998	Pub- lished 1996	Esti- mate 1997	1996				1997				1998				
						I	II	III	IV	I	II	III	IV	I	II	III		
Receipts	1,556.0	1,615.1	1,672.3	1,575.9	1,617.8	1,523.1	1,575.6	1,581.9	1,623.5	1,600.1	1,611.6	1,622.5	1,637.0	1,645.0	1,663.6	1,684.7		
Personal tax and nontax receipts	676.0	686.8	708.0	673.1	688.2	639.6	681.4	680.2	691.1	680.4	685.0	689.6	697.6	693.3	703.9	714.5		
Proposed legislation		-9	-15.1		-9					-1	-1	-1.7	-1.7	-15.1	-15.1	-15.1		
Other	676.0	686.8	723.1	673.1	689.0	639.6	681.4	680.2	691.1	680.4	685.0	691.3	699.3	708.4	719.0	729.6		
Corporate profits tax accruals ³	194.1	202.0	214.4	197.1	201.9	196.4	199.0	196.5	196.5	199.6	201.4	202.8	203.7	205.9	206.6	207.4		
Federal Reserve banks	22.9	25.5	25.6	22.8	24.2	22.7	23.0	22.8	22.8	23.4	24.0	24.6	24.7	24.9	24.9	25.0		
Proposed legislation		1.0	2.6		1.4					1.4	1.4	1.4	1.4	2.9	2.9	2.9		
Other	171.2	175.6	186.4	174.3	176.3	173.7	176.0	173.7	173.7	174.8	176.0	176.8	177.6	178.1	178.8	179.5		
Indirect business tax and nontax accruals	85.8	93.8	94.3	90.5	87.2	84.4	83.2	85.7	108.7	85.7	86.7	87.6	88.7	88.7	89.4	90.3		
Proposed legislation		3.3	7.4		4.7					3.2	4.0	5.8	5.7	6.9	8.0	8.9		
Other	85.8	90.5	86.9	90.5	82.5	84.4	83.2	85.7	108.7	82.5	82.7	81.8	83.0	81.8	81.4	81.4		
Contributions for social insurance	600.1	632.5	655.6	615.3	640.6	602.6	612.0	619.4	627.2	634.3	638.5	642.5	647.0	657.1	663.7	672.5		
Social Security	482.3	507.5	526.3	464.2	486.1	456.6	461.0	467.4	472.0	478.4	487.5	484.3	494.2	502.0	507.8	513.3		
Tax on wages and salaries	454.1	477.3	494.5	462.4	481.8	450.6	459.4	466.1	473.4	478.3	480.5	482.7	485.7	492.9	498.9	506.9		
Base increases .....		.7	3.5		2.7					2.7	2.7	2.7	2.7	5.9	5.9	5.9
January 1997 .....		.7	2.7		2.7					2.7	2.7	2.7	2.7	2.7	2.7	2.7
January 1998 .....			.8											3.2	3.2	3.2
Other	454.1	476.6	491.0	462.4	479.1	450.6	459.4	466.1	473.4	475.6	477.8	480.0	483.0	487.0	493.0	501.0		
Tax on self-employment earnings	28.3	30.1	31.8	28.1	30.1	27.8	27.9	28.1	28.3	29.0	29.7	30.4	31.3	31.6	31.7	31.9		
Base increases .....		.2	.5	0	.2	0	0	0	0	.2	.2	.2	.2	.5	.5	.5
Other	28.3	29.9	31.3	28.1	29.9	27.8	27.9	28.1	28.3	28.8	29.5	30.2	31.1	31.1	31.2	31.4		
Supplementary medical insurance	18.8	18.9	20.5	18.5	19.0	18.4	18.5	18.6	18.7	19.0	19.0	19.0	19.0	21.0	21.0	21.0		
Unemployment insurance	28.3	29.8	31.2	33.0	34.1	32.6	32.9	33.2	33.5	33.7	34.0	34.3	34.5	34.8	35.3	36.0		
Other	70.7	76.3	77.6	99.5	101.4	95.1	99.7	100.2	103.1	103.2	98.0	104.9	99.3	99.3	99.6	102.2		
Current expenditures	1,685.9	1,757.1	1,808.9	1,701.9	1,757.1	1,678.3	1,702.3	1,702.6	1,724.5	1,737.6	1,747.6	1,761.6	1,782.1	1,787.2	1,801.6	1,814.3		
Consumption expenditures	451.2	456.4	449.9	460.6	454.1	453.6	463.5	461.3	464.1	460.7	455.7	451.2	448.8	446.1	445.6	443.4		
National defense	305.3	304.6	297.9	304.7	296.7	298.7	307.4	304.7	307.8	302.7	297.9	294.0	292.0	288.3	287.6	285.8		
Pay raises and locality pay		2.4	5.3		3.2					3.0	3.2	3.2	3.2	5.9	6.0	6.0		
January 1997		2.3	3.2		3.2					3.0	3.2	3.2	3.2	3.2	3.2	3.2		
January 1998			2.1											2.7	2.8	2.8		
Consumption of general government fixed capital	59.4	57.9	56.9	58.9	57.7	59.6	59.1	58.7	58.2	58.0	57.8	57.5	57.3	57.0	56.7	56.5		
Other	245.9	244.3	235.7	245.8	235.8	239.1	248.3	246.0	249.6	241.7	236.9	233.3	231.4	225.4	224.9	223.3		
Nondefense	145.8	151.8	152.0	156.0	157.5	154.9	156.1	156.6	156.2	158.0	157.8	157.2	156.8	157.8	158.0	157.6		
Pay raises and locality pay		1.4	3.2		1.9					1.8	1.9	1.9	1.9	3.5	3.6	3.6		
January 1997		1.4	1.9		1.9					1.8	1.9	1.9	1.9	1.9	1.9	1.9		
January 1998			1.3											1.6	1.7	1.7		
Consumption of general government fixed capital	10.9	11.0	11.3	10.9	11.1	10.9	10.8	10.9	11.0	10.9	11.0	11.1	11.3	11.3	11.4	11.3		
Other	134.9	139.4	137.6	145.1	144.5	144.0	145.3	145.7	145.3	145.3	144.8	144.2	143.6	143.0	143.0	142.7		
Transfer payments (net)	753.2	795.3	836.3	764.5	806.7	756.2	757.9	762.9	781.0	790.3	799.0	809.9	827.4	831.7	840.6	847.6		
To persons	740.7	782.0	822.7	748.0	793.5	737.2	746.0	751.2	757.4	781.4	789.9	798.2	804.5	822.5	830.0	835.7		
Social security	338.1	354.7	371.1	342.0	358.8	339.2	341.5	342.4	344.9	356.5	358.0	359.4	361.2	372.6	374.3	376.1		
Regular	338.1	347.1	353.5	342.0	348.7	339.2	341.5	342.4	344.9	346.4	347.9	349.4	351.0	352.6	354.2	355.9		
Benefit increases		7.6	17.6		10.1					10.0	10.1	10.1	10.2	20.0	20.1	20.2		
January 1997		7.6	10.2		10.1					10.0	10.1	10.1	10.2	10.2	10.3	10.3		
January 1998			7.4											9.8	9.8	9.9		
Medicare	190.1	209.9	224.0	197.2	213.8	190.7	194.9	199.3	203.8	207.6	211.9	216.4	219.2	222.5	225.8	228.5		
Unemployment benefits	22.5	22.9	24.6	22.3	23.4	22.5	22.2	22.3	22.2	22.7	23.1	23.6	24.0	24.4	24.8	25.2		
State programs	21.8	22.2	23.9	21.7	22.7	21.8	21.6	21.6	21.6	22.0	22.4	22.9	23.3	23.7	24.1	24.5		
Emergency compensation																		
Federal and railroad employees .....	.7	.7	.7	.6	.7	.7	.6	.7	.6	.7	.7	.7	.7	.7	.7	.7	
Federal employee retirement	70.0	73.1	76.4	69.9	74.3	68.2	70.5	70.3	70.5	73.2	74.1	74.8	75.1	76.2	77.6	77.9		
Civilian	40.9	42.7	44.8	40.4	43.4	39.4	40.9	40.6	40.6	42.5	43.2	43.9	44.1	44.3	45.7	45.9		
Military	29.1	30.4	31.6	29.5	30.9	28.8	29.6	29.6	29.9	30.8	30.9	30.9	31.0	31.8	31.9	32.0		
Veterans benefits	20.4	21.0	22.2	21.6	21.6	21.4	21.7	21.6	21.5	21.5	21.5	21.6	21.8	22.3	22.5	22.7		
Life insurance	1.8	1.8	1.8	2.0	1.8	2.0	2.1	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8		
Pensions and disability	17.7	18.2	19.3	18.3	18.7	18.3	18.4	18.4	18.3	18.5	18.6	18.7	18.9	19.3	19.5	19.7		
Readjustment .....	.9	1.0	1.1	1.2	1.1	1.1	1.2	1.3	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.2	
Railroad retirement	8.5	8.8	8.8	8.1	8.5	8.1	8.1	8.1	8.1	8.3	8.4	8.5	8.6	8.8	8.8	8.9		
Military medical insurance	2.3	2.2	2.1	2.5	2.1	2.6	2.5	2.4	2.3	2.2	2.1	2.1	2.1	2.1	2.1	2.1		
Food stamps	22.3	21.5	22.3	22.0	21.7	22.5	22.2	22.1	21.2	21.4	21.6	21.7	22.1	22.3	22.5	22.6		
Black lung benefits	1.2	1.1	1.1	1.2	1.1	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1		
Supplemental security income	25.9	25.7	26.2	25.6	26.0	25.2	25.7	25.7	25.7	25.9	26.0	26.0	26.1	26.3	26.4	26.4		
Earned income and child care credits	19.1	21.2	22.0	18.2	21.6	18.2	18.2	18.2	18.2	21.6	21.6	21.6	21.6	22.3	22.3	22.3		
All other	20.3	19.7	21.6	17.6	20.6	17.4	17.4	17.6	17.9	19.3	20.4	21.3	21.5	21.6	21.7	21.8		
To rest of the world (net)	12.5	13.3	13.6	16.5	13.2	19.0	11.8	11.7	23.6	8.9	9.1	11.7	22.9	9.2	10.6	11.9		

Table 10.—Federal Government Receipts and Current Expenditures, NIPA Framework—Continued

[Billions of dollars; calendar year and quarters at seasonally adjusted annual rates]

	Fiscal year estimates ¹			Calendar year		Published ²				Estimates								
	1996	1997	1998	Pub- lished 1996	Esti- mate 1997	1996				1997				1998				
						I	II	III	IV	I	II	III	IV	I	II	III		
Grants-in-aid to State and local governments	214.7	230.8	246.6	213.3	231.5	207.6	219.3	214.5	211.8	223.7	230.2	235.2	236.7	241.0	246.1	250.5		
Highways	19.2	19.3	19.3	19.5	19.3	20.4	20.1	18.5	19.1	19.4	19.4	19.3	19.1	19.4	19.4	19.3		
Public assistance	111.0	119.8	127.9	110.9	122.8	107.1	116.7	111.3	110.4	119.3	122.5	124.4	124.8	126.8	129.1	131.0		
Medicaid	91.9	98.4	105.7	93.4	100.5	87.6	98.2	93.7	94.2	97.1	100.1	102.2	102.4	104.7	106.9	108.9		
Cash benefits	16.6	18.7	19.6	15.8	20.1	16.4	15.9	16.1	14.6	20.3	20.3	20.0	19.8	19.5	19.6	19.5		
Aid to families with dependent children	16.6	6.4	3.0	15.3	4.1	16.4	15.9	16.1	12.7	4.7	4.3	3.9	3.5	3.1	2.8	2.6		
Temporary assistance for needy families .....	.....	12.4	16.6	.5	16.0	.....	.....	.....	1.9	15.6	16.0	16.1	16.3	16.4	16.8	16.9
Social services	2.5	2.7	2.6	2.2	2.2	3.1	2.7	1.5	1.7	1.9	2.1	2.2	2.6	2.6	2.6	2.6		
Education	17.0	18.5	20.1	17.6	17.5	17.4	18.2	18.9	15.9	16.6	17.2	17.7	18.3	19.1	20.7	22.5		
Community development	5.9	6.6	6.4	4.7	5.7	5.0	4.7	4.7	4.4	4.9	5.5	6.2	6.0	5.8	5.6	5.4		
Mass transit	3.7	3.9	3.4	3.7	3.8	3.5	3.4	3.9	4.0	3.9	3.9	3.8	3.7	3.5	3.3	3.1		
Environmental protection	2.6	2.5	2.5	2.5	2.6	2.9	2.4	2.5	2.1	2.3	2.6	2.9	2.6	2.5	2.5	2.4		
Food and nutrition	14.0	14.7	16.1	13.6	15.1	13.0	13.0	14.4	14.1	14.5	14.9	15.3	15.6	15.9	16.3	16.6		
Health care	8.0	8.0	10.9	7.4	8.6	7.2	8.3	7.7	6.3	7.1	8.2	9.2	9.7	10.6	11.4	11.9		
All other	33.3	37.6	39.9	32.9	36.2	31.2	32.5	32.6	35.5	35.7	36.0	36.4	36.9	37.4	37.8	38.3		
Net interest paid	229.7	236.0	240.0	233.4	236.7	230.5	230.8	233.7	238.8	233.9	234.0	237.1	241.7	238.2	238.5	241.5		
Subsidies less current surplus of government enterprises	37.1	38.7	36.1	30.1	28.2	30.4	30.8	30.3	28.8	28.9	28.5	28.1	27.4	30.2	30.8	31.3		
Agriculture subsidies	7.9	8.2	7.9	5.5	5.6	5.4	5.6	5.7	5.6	5.6	5.6	5.6	5.6	5.5	5.4	5.3		
Housing subsidies	24.3	25.9	26.0	24.8	25.5	24.6	24.6	24.8	25.1	25.4	25.4	25.5	25.5	25.5	25.5	25.4		
Maritime subsidies .....	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	
Other subsidies	1.4	1.4	.6	1.0	.9	1.1	1.0	1.0	1.0	1.0	.9	.8	.7	.5	.4	.2		
Less: Current surplus of government enterprises:																		
Postal Service	-2.8	-1.8	-.5	-.9	-2.5	-1.1	-.9	0	-1.7	-2.0	-2.3	-2.6	-2.9	-3.0	-3.1	-3.1		
Other	3.3	3.0	1.4	-1.5	-3.9	-.9	-.6	-1.4	-3.1	-3.3	-3.6	-4.0	-4.6	-1.5	-.7	.2		
Less: Wage accruals less disbursements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Current surplus or deficit (-) ⁴	-129.9	-142.0	-136.6	-125.9	-139.9	-155.2	-126.7	-120.8	-100.9	-137.9	-136.4	-139.7	-145.5	-139.0	-133.7	-124.0		
Addenda:																		
Gross investment ⁵	62.9	59.0	58.0	63.7	59.4	65.6	66.0	64.2	58.8	59.0	60.6	57.7	60.3	59.4	56.6	55.6		
National defense	43.2	38.5	37.4	43.7	38.9	46.2	46.3	44.1	38.2	38.5	40.2	37.1	39.7	38.7	36.2	35.0		
Nondefense	19.7	20.5	20.6	19.9	20.5	19.4	19.7	20.1	20.6	20.5	20.4	20.6	20.6	20.7	20.4	20.6		
Consumption expenditures and gross investment	514.0	515.5	507.9	524.3	513.5	519.2	529.6	525.5	522.9	519.6	516.3	508.9	508.9	505.7	502.2	499.0		
National defense	348.5	343.1	335.3	348.4	335.5	344.9	353.7	348.8	346.1	341.2	338.1	331.1	331.6	327.1	323.8	320.8		
Nondefense	165.5	172.4	172.6	175.9	178.0	174.3	175.8	176.7	176.8	178.5	178.2	177.8	177.4	178.5	178.4	178.2		

1. Fiscal year estimates are the sum of quarterly values not seasonally adjusted and are consistent with the budget proposals.

2. Published estimates, both calendar year and quarters, appear in the NIPA tables 3.2 and 3.7B elsewhere in this issue.

3. BEA's estimate of corporate profits tax accruals for the fourth quarter of 1996 will not be available until the release of the final estimates of gross domestic product on March 28, 1997. The value shown is taken from the budget.

4. See footnote 1 in table 7.

5. Gross investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in Federal Government consumption expenditures.

Sources: *The Budget of the United States Government, Fiscal Year 1998* and the Bureau of Economic Analysis.